

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



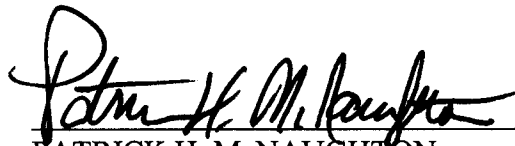
FINANCIAL EXAMINATION
OF
Contractors Bonding and Insurance Company
Seattle, Washington

NAIC CODE 37206
DECEMBER 31, 2002

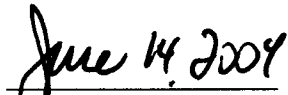
Participating States:
Washington
Nevada

CHIEF EXAMINER AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Contractors Bonding and Insurance Company of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2002.



PATRICK H. McNAUGHTON
Chief Examiner



Date

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Seattle, Washington
June 14, 2004

The Honorable Kevin McCarty
Director of Insurance Regulation, Florida
Chair, NAIC Financial Condition (E) Committee
Florida Department of Financial Services
The Larson Building
200 E. Gains Street, Room 101
Tallahassee, FL 32399-0301

The Honorable John Morrison
Commissioner, Montana Department of Insurance
NAIC Secretary, Western Zone
840 Helena Avenue
Helena, MT 59601

The Honorable Mike Kreidler
Commissioner, Washington State Office of the Insurance Commissioner (OIC)
Insurance 5000 Building
5000 Capital Blvd.
Tumwater, WA 98504-0255

Commissioners:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association Examination was made of the corporate affairs and financial records of

Contractors Bonding and Insurance Company
of
Seattle, Washington

hereinafter referred to as "CBIC" or the "Company," at the location of its home office, 1213 Valley Street, Seattle, Washington 98109. This report is respectfully submitted showing the condition of the Company as of December 31, 2002.

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 1997 through December 31, 2001, carried forward through December 31, 2002 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administration Code (WAC), Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination. The findings of the previous examination report were reviewed and any items that were not satisfactorily addressed by the Company are discussed later in the report.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed the Company's filed 2002 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the Annual Statement in accordance with the NAIC Annual Statement Instructions and if its accounts and records were prepared and maintained in accordance with Title 48 of the Revised Code of Washington, Title 284 of the Washington Administrative Code and the NAIC's Accounting Practices and Procedures Manual.

The following summarizes the exceptions noted while performing this review.

1. Misclassification of Agents' Balances or Uncollected Premiums

The Company classifies all premiums receivable from agents in the Annual Statement as billed. The NAIC Annual Statement Instructions require premium receivables to be recorded into two specific accounts for billed receivables and unbilled receivables as follows:

Billed:	Premiums and agents' balances in the course of Collection
Unbilled:	Premiums, Agents' Balances and Installments Booked but Deferred and not Yet Due

RCW 48.05.250, RCW 48.05.073, and WAC 284-07-050(2) require annual statement forms to be in general form and context as approved by the NAIC. The misclassification has no impact on surplus.

The Company is instructed to comply with RCW 48.05.250, RCW 48.05.073, WAC 284-07-050(2) and the NAIC Annual Statement Instructions by separating premium receivables into two categories; A) premiums in the course of collection, which refers to billed and uncollected premiums and B) premiums booked and not yet due.

2. Inaccurate Conflict of Interest Statement

During the review of conflict of interest statements, the examiners noted the CEO's statement failed to declare a material property lease agreement between the CEO and the Company. The lease agreement is for a piece of land that was leased to the Company and developed by the Company for its home office. Under RCW 23B.08.420(1), RCW 48.07.030 and RCW 48.05.370, the Company officers and directors have obligations of good faith, prudence, and primacy of corporate welfare to the Company, so there must be a suitable mechanism to monitor this obligations.

The Company is instructed to adequately declare any conflict of interest that might exist between the officers and the Company pursuant to RCW 48.07.030, RCW 48.05.370.

COMMENTS AND RECOMMENDATIONS

1. Business Contingency Plan

The Company has a Business Contingency Plan which has not been revised in several years and needs to be updated to address the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities.

It is recommended the Company update its Business Contingency Plan to address the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as required by NAIC Guidelines.

2. Dividends

CBIC periodically pays dividends to its shareholders upon CFO approval. The CFO has an informal authorization to pay dividends to the shareholders up to the maximum amount allowable by law pursuant to notification under Chapter 48.31B RCW. However, CBIC Bylaws require the Board of Directors declaration and approval.

It is recommended the Company follow its Bylaws or amend them according to current practices.

Contractors Bonding and Insurance Company

COMPANY HISTORY

Contractors Bonding and Insurance Company was granted a Solicitation Permit on September 25, 1979 and received its Certificate of Authority on October 9, 1979 to transact surety insurance business in the state of Washington. The Certificate was amended on July 15, 1980, authorizing the transaction of Marine & Transportation, Vehicle, Property and General Casualty insurance.

The Articles of Incorporation were approved by the OIC and were filed with the Secretary of State of Washington on September 24, 1979. The Company increased its capitalization from \$2,860,250 to \$3,860,250 on July 21, 1988. On May 9, 1997, subsequent to the prior examination date, CBIC issued a stock dividend to its sole shareholder, Data and Staff Service Company (DSSC), of 15,000 common shares, \$10 par value, which increased the Company's capitalization to \$4,010,250. In 2000, DSSC contributed another \$1,000,000, which further increased the capitalization to \$5,010,250.

In 1994, CBIC began writing other commercial property and casualty lines, and focused on certain niche markets such as contractors' general liability insurance. This allowed the Company to capitalize on its knowledge of the construction industry.

CBIC is licensed in all fifty (50) states and the District of Columbia. For the year-ended December 31, 2002, approximately two-thirds of the direct premium volume was written in the states of Washington, California, and Arizona. Slightly more than 60% of the 2002 volume was written under the commercial insurance coverage lines.

Growth of Company

The following schedules reflect the growth of the Company by year beginning in 1997:

Schedule 1

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>
2002	\$ 100,290,166	\$ 73,582,603	\$ 26,707,563
2001	\$ 86,428,532	\$ 60,918,278	\$ 25,510,254
2000	\$ 71,948,435	\$ 47,770,103	\$ 24,178,332
1999	\$ 67,592,266	\$ 46,030,498	\$ 21,561,768
1998	\$ 62,609,728	\$ 41,483,181	\$ 21,126,547
1997	\$ 55,391,609	\$ 34,419,848	\$ 20,971,761

Contractors Bonding and Insurance Company

Schedule 2

	Net Premiums	Net Inv.	Underwriting
<u>Year</u>	<u>Written</u>	<u>Gain (Loss)</u>	<u>Deductions</u>
2002	\$ 42,157,906	\$ 734,505	\$ 36,530,979
2001	\$ 35,856,777	\$ 2,293,999	\$ 34,635,010
2000	\$ 38,749,978	\$ 4,022,986	\$ 39,848,089
1999	\$ 38,048,511	\$ 3,084,739	\$ 34,518,989
1998	\$ 35,402,938	\$ 4,170,594	\$ 31,948,238
1997	\$ 29,436,690	\$ 2,314,442	\$ 25,090,724

AFFILIATED COMPANIES

Data and Staff Service Company

Data and Staff Service Company, a domestic insurance holding company, is the parent of CBIC. Donald Sirkin, Chairman and Chief Executive Officer, owns 96.8% of the outstanding shares of DSSC. The remaining 3.2% of the outstanding shares of DSSC are owned by the Employee Stock Ownership Plan (ESOP).

On September 1, 1990, CBIC entered into a Ground Lease Agreement with DSSC and Donald Sirkin. CBIC pays \$16,666 per month, which is being split between DSSC and Mr. Sirkin in proportion to the square footage owned by each to the total square footage.

On January 4, 1994, CBIC adopted certain corporate resolutions which amended the Consolidated Tax Agreement with DSSC to meet statutory requirements for the state of New York in order to become licensed in that state. The agreement states that federal income taxes will be calculated on the 'separate return method' as required by the NAIC. However, the agreement did not include the signature of an officer of DSSC, indicating acceptance of the agreement. On April 22, 1998, the Consolidated Tax Agreement was revised and signed by officers of both companies to include the signatures of both parties.

MANAGEMENT AND CONTROL

Ownership

The outstanding stock of CBIC is owned by Data and Staff Services Company. Don Sirkin, Chief Executive Officer of DSSC, owns approximately 96.8 % of the voting stock of the parent company. Therefore, Mr. Sirkin is the Ultimate Controlling Person.

Board of Directors

The Bylaws vest the corporate powers and control of the business affairs of the Company in a Board of Directors. On February 29, 2000 an amendment was approved setting the number of Directors at not less than five (5) and no more than ten (10). Not less than three-fourths of the

Contractors Bonding and Insurance Company

Board of Directors shall be United States citizens, as required by RCW 48.07.050. Directors of the Company need not be residents of the state of Washington or shareholders of the corporation.

The following directors were serving the Company as of December 31, 2002:

<u>Name</u>	<u>Principal Occupation</u>
Donald Sirkin	Chief Executive Officer of DSSC
Steven A. Gaines	President of DSSC
Darrel D. Hallett	Attorney, Chicone & Hallett, P.S
James R. Dickens	Attorney, Miller, Nash, Wiener, Hager & Carlson
Matthew M. Kelleher	First Vice President – Morgan Stanley Dean Witter
R. Kirkpatrick Eland	Secretary and Assistant Treasurer of DSSC
Robert M. Ogle	Treasurer and Assistant Secretary of DSSC

Officers

The financial controls and operations of the Company are under the direction of Donald Sirkin, Chairman of the Board and Chief Executive Officer since 1984. Previously, he served as President of CBIC. Mr. Sirkin owns 96.8% of Data and Staff Service Company, the parent company, and is also the Chairman and Chief Executive Officer of DSSC. The President of the Company, Steven Allen Gaines, has served since April 1, 1984. Previously, he served as Secretary.

The following officers were serving the Company as of December 31, 2002:

<u>Name</u>	<u>Position</u>
Donald Sirkin	Chief Executive Officer
Steven A. Gaines	President and Chief Operating Officer
R. Kirkpatrick Eland	Chief Financial Officer and Secretary
Robert M. Ogle	Treasurer
J. Reese Burnett, Jr.	Vice President and Chief Information Officer
J.D. Minto	Vice President
Larry Byers	Senior Vice President
Jay Malone	Senior Vice President
Tom Dymont	Vice President
Craig Hedrick	Vice President
John Pieprzny	Senior Vice President
Constance Rodriguez	Vice President
Robert Palfrey	Assistant Vice President
Debbie J. Kidd	Vice President
Mike Burns	Assistant Vice President
Anne Kurt	Assistant Vice President

Contractors Bonding and Insurance Company

Conflict of Interest

Contractors Bonding and Insurance Company has a policy statement and questionnaire for the disclosure of conflicts of interest and requires all directors, officers, and key employees to sign the statement annually. The signed statements are reviewed annually for conflicting situations. The statements of Donald Sirkin, Chief Executive Officer and Steven A. Gaines, President, are reviewed annually by the Board of Directors, along with any other statements that may contain conflicting situations. (see "Instruction" 2)

Fidelity Bond and Other Insurance

The Company is a named insured on an extensive portfolio of insurance which appears to cover against all catastrophic losses and other types of losses. The NAIC suggested minimum amounts of fidelity insurance were calculated at a minimum of \$700,000 - \$800,000. The Company carries \$700,000 which is adequate to meet the minimum guidelines.

Officers', Employees', and Agents' Welfare and Pension Plans

The Company offers to its employees meeting certain eligibility requirements the following employee benefits at no cost to the employee. Employees are responsible for the additional costs of spouses and dependants:

Medical Insurance

Dental Insurance

Long Term Disability Insurance

Group Term Life and Accidental Death & Disability Insurance

Data and Staff Service Company Profit Sharing/401K Plans

The parent company offers a qualified defined contribution profit sharing plan which covers the CBIC employees meeting certain eligibility requirements. Under the plan, there is no fixed dollar amount of retirement benefits. Each year, the Company may elect to make a discretionary contribution to the plan. The amount, if any, is determined annually by the Company. Actual benefits to participants depend upon the value of vested account balances at the time of retirement, based on a formula which includes credited years of service. Amounts are fully vested upon the completion of seven years of service.

For year-end 2002, the plan was audited by Moss Adams, LLP, which issued an unqualified opinion. The fair value of plan assets were \$5,724,760 as of December 31, 2002.

Data and Staff Service Company Employee Stock Ownership Plan

The parent company maintains an Employee Stock Ownership Plan which covers the CBIC employees meeting certain eligibility requirements. The purpose of the plan is to reward

Contractors Bonding and Insurance Company

eligible employees for long and loyal service. The plan is governed by the Employee Retirement Income Security Act of 1974 (ERISA), as amended, and the laws of the state of Washington. Plan assets are invested primarily in common stock of DSSC. Each year, the employer determines the amount, if any, of its contribution to the plan. Actual retirement benefits depend upon the accumulated value of the eligible employee's account, based on a formula which includes the participant's compensation.

In September 2002, the plan received a favorable determination letter from the Internal Revenue Service. The letter states:

The plan satisfies the nondiscrimination in amount requirement of section 1.401 (a) (4) – 1(b)(2) of the Income Tax Regulations on the basis of a design-based safe harbor, as described in the regulations.

The plan satisfies the nondiscriminatory current availability requirements of section 1.401 (a)(4)-4(b) of the Income Tax Regulations with respect to those benefits, rights, and features that are currently available to all employees in the plan's coverage group.

For year-end 2002, the allocation of plan investments to participant accounts was prepared by Northwest Plan Services, Inc. which relied upon employee and financial data furnished by the Company. Accordingly, it does not accept responsibility for the accuracy of the data. The fair value of the plan assets was \$1,436,462 as of December 31, 2002.

CORPORATE RECORDS

The examiners reviewed the corporate records of Contractors Bonding and Insurance Company for the period under examination. Board meetings were conducted with a quorum present. The Board members ratified the changes to the Articles of Incorporation and Bylaws.

LOSS EXPERIENCE

The reserves carried by the Company for unpaid losses and unpaid loss adjustment expenses were \$27,201,456 and \$4,796,740, respectively, as of December 31, 2002.

The reserves were reviewed by the OIC's casualty actuarial staff. Company personnel provided loss and loss adjustment expense development triangles by accident year and line of business as of December 31, 2002. Company personnel provided additional information by electronic mail, by telephone, and in a face-to-face meeting. Actuarial staff also reviewed an actuarial report prepared by the Company's consulting actuarial firm, Ernst & Young.

Based on their analysis of the data, the OIC's actuarial staff concluded that the Company's booked reserves for unpaid losses and unpaid loss adjustment expenses as of December 31,

Contractors Bonding and Insurance Company

2002, were within a reasonable range. Therefore, the reserves are accepted as shown in the Company's 2002 Annual Statement.

REINSURANCE

During 2002, CBIC ceded premiums of \$27,259,687 which equaled approximately 39% of the Total Direct Written Premiums. The principal reinsurers are American Re-Insurance Company and PMA Capital Reinsurance Company. Each of these companies is an authorized reinsurer in the state of Washington. The reinsurance agreements for 2002 were:

<u>Description</u>	<u>Coverage Limit</u>
Excess Loss-Surety	72.5% of \$5,800,000 in excess of \$200,000
Excess Loss-Property	\$1,800,000 in excess of \$200,000, \$4,500,000 per occurrence limit
Excess Loss-Casualty	\$800,000 in excess of \$200,000, \$4,500,000 per occurrence limit
Excess Loss-Casualty-Clash	\$1,000,000 in excess of \$1,000,000
Excess Loss-Property-Clash	\$1,000,000 in excess of \$2,000,000
Excess Loss-Excess Casualty	\$4,000,000 in excess of \$1,000,000
Catastrophe-Property	\$10,000,000 in excess of \$1,000,000
Catastrophe-Property	\$5,000,000 in excess of \$11,000,000
Quota Share-Surety	42.5% of \$10,000,000
Quota Share-Surety	51.0% of \$10,000,000
Quota Share-Surety	63.75% of \$10,000,000
Quota Share-Commercial Umbrella	\$10,000,000
Quota Share-Property	50.0% of \$200,000
Quota Share-Casualty	50.0% of \$200,000
Facultative-Property (Auto-Fac)	

STATUTORY DEPOSITS

The Company maintained the following deposits on December 31, 2002, in compliance with statutory and special requirements:

Contractors Bonding and Insurance Company

<u>Location</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Arkansas	US Treasury Note	\$ 225,000	\$ 225,930	\$ 231,257
Florida	Certificate of Deposit	100,000	100,000	100,000
Georgia	US Treasury Note	50,000	50,110	57,438
Louisiana	Certificate of Deposit	50,000	50,000	50,000
Louisiana	Certificate of Deposit	50,000	50,000	50,000
Massachusetts	US Treasury Note	580,000	583,749	609,905
New Mexico	US Treasury Note	300,000	302,134	328,125
North Carolina	US Treasury Note	100,000	100,000	102,063
Oregon	Certificate of Deposit	100,000	100,000	265,844
Oregon	US Treasury Note	215,000	214,701	220,979
Virginia	US Treasury Note	235,000	235,480	236,617
Total		\$ 2,005,000	\$ 2,012,104	\$ 2,252,228

Special deposits which are held for the protection of the Policyholders:

<u>Location</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Washington	US Treasury Note	\$ 900,000	\$ 898,823	\$ 1,050,471
Washington	US Treasury Note	1,000,000	1,027,501	1,109,060
Washington	US Treasury Note	880,000	911,317	1,073,600
Total		\$ 2,780,000	\$ 2,837,641	\$ 3,233,131

Securities held by the state of Washington and other states were confirmed directly with those states or their authorized representatives.

ACCOUNTING RECORDS AND PROCEDURES

The Company maintains its accounting records on a GAAP modified accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for Annual Statement reporting. The Company is audited annually by the certified public accounting firm of Ernst & Young, LLP, and this firm issued an unqualified opinion for the year-ending December 31, 2002. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning phase of the examination and a trial balance was prepared for the year ended December 31, 2002.

The OIC's actuarial staff reviewed the reserves for the combined companies' unpaid loss and loss adjustment expenses. The OIC actuarial staff's estimates indicate that the companies booked reserves for both losses and allocated loss adjustment expenses are in a reasonable range.

SUBSEQUENT EVENTS

Reinsurance

Contractors Bonding and Insurance Company

Due to CBIC's concerns with the financial health and stability of PMA Capital Insurance Company, CBIC's principal reinsurer for the last two years in terms of ceded premium volume, CBIC terminated its reinsurance agreement with PMA Capital Insurance Company on June 30, 2003 and placed most of its reinsurance business with Swiss Re. Swiss Re's contract is effective June 30, 2003 to December 31, 2005. Swiss Re's contract is very similar to PMA Capital Insurance Company's contract in terms of ceding commission rate, loss ratio corridor and limits, experience account setup, and interest credit on the account. However, Swiss Re is a much larger company and in a much better financial position.

Management Changes

During the second quarter of 2003, Jay Anthony Malone resigned as Senior Vice President of the Company.

Effective April 30, 2004, Steven A. Gaines resigned as President And Chief Operating Officer of CBIC.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

The recommendations and instructions from the previous exam have been implemented by the Company.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 2002, as determined by the examination:

Assets and Liabilities

Statement of Income

Reconciliation of Surplus for the Period Since the last Examination

Contractors Bonding and Insurance Company
Assets and Liabilities
December 31, 2002

Assets	Balance Per Company	Examination Adjustments	Balance Per Examination
Bonds	\$ 74,360,937		\$ 74,360,937
Stocks:			
Common stocks	2,484,587		2,484,587
Real Estate			
Properties occupied by the company	2,447,164		2,447,164
Cash and short-term investments	5,332,634		5,332,634
Subtotal, cash and invested assets	\$ 84,625,322		\$ 84,625,322
Agents' balances or uncollected premiums:			
Premiums and agents' balances in course of collection	10,688,148		10,688,148
Reinsurance recoverables on loss and loss adjustment expense payments	1,503,309		1,503,309
Federal and foreign income tax recoverable and interest thereon	1,854,018		1,854,018
Guaranty funds receivable or on deposit	181,775		181,775
Electronic data processing equipment and software	436,172		436,172
Interest, dividends and real estate income due and accrued	1,001,422		1,001,422
Total Assets	\$ 100,290,166	\$ 0	\$ 100,290,166
Liabilities, Surplus and other Funds			
Losses	\$ 27,201,456		\$ 27,201,456
Loss adjustment expenses	4,796,740		4,796,740
Commissions payable, contingent commissions and other similar charges	1,256,901		1,256,901
Other expenses	1,395,204		1,395,204
Taxes, licenses and fees (excluding federal and foreign income taxes)	432,771		432,771
Federal and foreign income taxes	976,197		976,197
Unearned premiums	22,490,364		22,490,364
Advanced premium	430,315		430,315
Ceded reinsurance premiums payable	781,921		781,921
Funds held under reinsurance treaties	5,585,774		5,585,774
Amounts withheld or retained for account of others	7,623,290		7,623,290
Payable to parent, subsidiaries and affiliates	580,890		580,890
Aggregate write-ins for liabilities	30,780		30,780
Total Liabilities	\$ 73,582,603		\$ 73,582,603
Common capital stock	2,500,000		2,500,000
Gross paid in and contributed surplus	2,510,250		2,510,250
Unassigned funds (surplus)	21,697,313		21,697,313
Surplus as regards policyholders	\$ 26,707,563		\$ 26,707,563
Total Liabilities, Surplus and other Funds	\$ 100,290,166	\$ 0	\$ 100,290,166

Contractors Bonding and Insurance Company
Statement of Income
For the Year Ended December 31, 2002

	<u>Balance Per Company</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Underwriting Income			
Premiums earned	\$ 40,247,197	\$ 0	\$ 40,247,197
Deductions			
Losses incurred	10,747,867		10,747,867
Loss expenses incurred	4,676,914		4,676,914
Other underwriting expenses incurred	21,106,198		21,106,198
Total underwriting deductions	<u>36,530,979</u>		<u>36,530,979</u>
Net underwriting gain or (loss)	3,716,218		3,716,218
Investment Income			
Net investment income earned	827,275		827,275
Net realized capital gains or (losses)	<u>(92,770)</u>		<u>(92,770)</u>
Net investment gain or (loss)	734,505		734,505
Other Income			
Net gain or (loss) from agents' or premium balances charged off	(145,498)		(145,498)
Finance and service charges not included in premiums	260,746		260,746
Aggregate write-ins for miscellaneous income	<u>(5,866)</u>		<u>(5,866)</u>
Total other income	<u>109,382</u>		<u>109,382</u>
Net income, after dividends to policyholders but before federal and foreign	4,560,105		4,560,105
Federal and foreign income taxes incurred	<u>1,800,786</u>		<u>1,800,786</u>
Net income	<u>\$ 2,759,319</u>	<u>\$ 0</u>	<u>\$ 2,759,319</u>
Capital and Surplus Account			
Surplus as regards policyholders, December 31 prior year	25,510,254		25,510,254
Gains and (Losses) in Surplus			
Net income	2,759,319		2,759,319
Net unrealized capital gains or (losses)	(498,238)		(498,238)
Change in net deferred income tax	762,215		762,215
Change in nonadmitted assets	(705,987)		(705,987)
Dividends to stockholders (cash)	<u>(1,120,000)</u>		<u>(1,120,000)</u>
Change in surplus as regards policyholders for the year	<u>1,197,309</u>		<u>1,197,309</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$ 26,707,563</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 26,707,563</u></u>

Contractors Bonding and Insurance Company
Reconciliation of Surplus for the Period since Last Examination
For the Year Ended December 31,

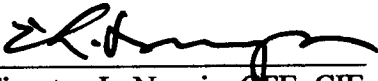
	2002	2001	2000	1999	1998	1997
Capital and surplus, December 31, previous	\$ 25,510,254	\$ 24,178,332	\$ 21,561,768	\$ 21,126,547	\$ 20,971,761	\$ 20,447,163
Net income	2,759,319	2,085,712	3,458,292	2,275,475	2,709,827	1,599,430
Net unrealized capital gains or (losses)	(498,238)	(190,752)	(573,230)	(340,806)	(969,583)	1,054,872
Change in net deferred income tax	762,215	2,710	0	0	0	0
Change in nonadmitted assets	(705,987)	(391,928)	171,502	(289,448)	43,542	(189,704)
Change in excess of statutory reserves over statement	0	0	0	0	56,000	(20,000)
Cumulative effects of changes in accounting principles	0	1,176,180	0	0	0	0
Capital changes:						
Transferred from surplus (Stock Dividend)	0	0	0	0	0	150,000
Surplus adjustments:						
Paid in	0	0	1,000,000	0	0	0
Transferred to capital (Stock Dividend)	0	0	0	0	0	(150,000)
Dividends to stockholders (cash)	(1,120,000)	(1,350,000)	(1,440,000)	(1,210,000)	(1,685,000)	(1,920,000)
Change in surplus as regards policyholders for the year	1,197,309	1,331,922	2,616,564	435,221	154,786	524,598
Surplus as regards policyholders, December 31 current	\$ 26,707,563	\$ 25,510,254	\$ 24,178,332	\$ 21,561,768	\$ 21,126,547	\$ 20,971,761

ACKNOWLEDGMENT

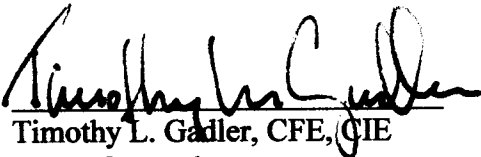
Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of Contractors Bonding and Insurance Company during the course of this examination.

In addition to the undersigned, Mike Jordan, CPA, CFE, MHP; Tarik Subbagh, CPA; Jeanette Liao; Lee Barclay, FCAS, MAAA; Jim Antush; and John Jacobsen, AFE, from the Washington State Insurance Commissioner's Office, participated in the examination and the preparation of this report.

Respectfully submitted, ,



Timoteo L. Navaja, CFE, CIE
Examiner-in-Charge
State of Washington



Timothy L. Gadler, CFE, CIE
State of Nevada
Representing the Western Zone, NAIC

AFFIDAVIT

STATE OF WASHINGTON

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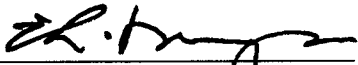
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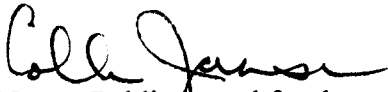
Timoteo L. Navaja, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Contractors Bonding and Insurance Company was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Timoteo L. Navaja, CFE, CIE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 14th day of June, 2004.



Notary Public in and for the
State of Washington.

